

# CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

### MINUTES OF MEETING OPEN SESSION

October 20, 2008

The Investment Committee met on Monday, October 20, 2008 at the Embassy Suites Hotel, 333 Madonna Road, San Luis Obispo, California.

The meeting was called to order at approximately 10:15 a.m. and the following members were present:

George Diehr, Chair
Priya Mathur, Vice Chair
Marjorie Berte
John Chiang, represented by Terry McGuire
Rob Feckner
David Gilb
Henry Jones
Bill Lockyer
Louis F. Moret
Tony Oliveira
Anne Sheehan
Kurato Shimada
Charles Valdes

### AGENDA ITEM 2 – APPROVAL OF SEPTEMBER 2008 MEETING MINUTES

On **MOTION** by Mr. Shimada, **SECONDED** and **CARRIED** that the September 15, 2008 Open Session minutes be approved as presented.

# AGENDA ITEM 3a – TOTAL FUND, Summary of Services for General Pension Consultant Spring-Fed Pool and Private Equity Consultant

Matt Flynn, Division Chief, presented the item. In September the Investment Committee approved the issuance of Requests for Proposals (RFPs) for creation of a General Pension Consultant Services Spring-Fed Pool and a stand-alone contract for the Committee's Private Equity Consultant. Staff outlined the proposed summary of services for both RFPs, including timelines for completion of the process.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve the Summary of Services for the General Pension Consultant Spring-Fed Pool and the Summary of Services for the Private Equity Consultant, as revised.

Staff will report back periodically regarding the status of the RFP process and to present options for Investment Committee involvement.

### AGENDA ITEM 4a – REAL ESTATE, Responsible Contractor Annual Report

Ted Eliopoulos, Senior Investment Officer, and Laurie Weir, Portfolio Manager, presented the item. Staff reviewed the compliance report for fiscal year 2007-2008, including complaints, bid notifications, and new program initiatives.

The Committee accepted the annual information report.

### AGENDA ITEM 5 – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM

There were no items to report.

# AGENDA ITEM 6a – INFLATION-LINKED ASSET CLASS (ILAC), Implementation Update

Farouki Majeed, Senior Investment Officer, reported on implementation of the ILAC, including the commodities, inflation-linked bonds, infrastructure, and forestland components. An update was provided for each component in the areas of investment policies, staffing, delegations, incentive plan, and investment implementation.

Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

Staff will continue to provide monthly ILAC implementation updates.

## AGENDA ITEM 7a – GLOBAL FIXED INCOME, Selection of High Yield Fixed Income Managers

Mr. Jones left the room during discussion of this item.

Curtis Ishii, Senior Investment Officer, and Kevin Winter, Senior Portfolio Manager, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Committee.

On December 17, 2007, the Investment Committee approved the issuance of a RFP for the establishment of a spring-fed pool for active non-investment grade bond and leveraged loan managers. Staff reviewed the solicitation, review, and scoring process and presented their recommendations.

There was discussion regarding the evaluation and scoring methodology and the role of Wilshire Associates consultants. Wilshire's Accounting and Compliance disclosure procedures were explained. Michael Schlachter and Andrew Junkin left the room during this discussion.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve the following managers for inclusion in the External High Yield Managers Spring-Fed Pool: Non-Investment Grade Bonds

- Artio Global Management, LLC
- JP Morgan Asset Management
- Logan Circle Partners, LP
- Putnam Investments, LLC
- RiverSource Institutional Advisors
- Simran Capital Management, LLC (Diversity Firm)

#### Leveraged Loans

- RiverSource Institutional Advisors
- TCW Group Inc.

The Chair directed that ING Investment Management be considered as an additional Leveraged Loans manager if certain information is received regarding their business relationship with Wilshire Associates.

# AGENDA ITEM 8a – GLOBAL EQUITY, Consultant Review of Internal Risk Managed Absolute Strategies (RMARS) Program

Michael Schlachter, Wilshire Associates, presented the item. It is part of Wilshire's contractual requirement to periodically review CalPERS' internal asset management functions. Wilshire conducted an on-site review of the RMARS Program, including a review of the teams' personnel, investment processes, and resources. The findings of the report were presented.

The Chair directed that a panel discussion regarding RMARS strategies be scheduled for a future meeting and that UBS and PAAMCO be invited to participate.

The Committee accepted the annual information report.

### AGENDA ITEM 8b – GLOBAL EQUITY, Trading Process Modification

Eric Baggesen, Senior Investment Officer, and Dan Bienvenue, Senior Portfolio Manager, presented the item. Andrew Junkin, Wilshire Associates, and Warren Henderson, Mosaic Investment Advisors, were available to respond to questions from the Committee.

Staff reviewed their analysis of the domestic and international portfolio trading processes which revealed that the current brokerage model employed by internal equity staff is in need of an update. Staff outlined a proposed model wherein all brokers will be evaluated and placed in Core, Developmental, and Queue pools. When implemented, the process will allow a more informed evaluation of broker capabilities and more meaningful and leverageable relationships.

The Chair directed staff to review the possibility of a policy that would establish goals for emerging brokers and California based brokers, as well as a policy that would apply to external managers, and to present to the Policy Subcommittee the results of this review as well as policy options.

The meeting recessed from Noon to 12:10 p.m.

# AGENDA ITEM 9a – GLOBAL EQUITY – CORPORATE GOVERNANCE, Consultant Review of Internal Corporate Governance Program

Andrew Junkin, Wilshire Associates, presented the item. For the first time, Wilshire conducted an on-site review of the internal Corporate Governance Program, including a review of the teams' personnel, investment processes, and resources. The findings of the report were presented.

The Committee accepted the annual information report.

# AGENDA ITEM 9b – GLOBAL EQUITY – CORPORATE GOVERNANCE, Corporate Board Diversity

Eric Baggesen, Senior Investment Officer, presented the item.

At California State Controller John Chiang's suggestion, in April 2008 the Committee directed staff to carry out certain activities to address corporate board diversity within the Corporate Governance Program. Staff provided an update regarding Focus List engagement, proxy advisor engagement, and the development of a best practices white paper.

### AGENDA ITEM 9c – GLOBAL EQUITY – CORPORATE GOVERNANCE, Review of Federal Emergency Economic Stabilization Act of 2008 and Next Steps

Eric Baggesen, Senior Investment Officer, presented the item.

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 was signed. The law provides \$700 billion for the U. S. Treasury Department to purchase "troubled assets" from financial institutions. Staff reported that, in collaboration with all asset classes, the Corporate Governance Internal Working Group, and Lussier, Gregor, Vienna & Associates, the Corporate Governance Unit is taking the lead to explore opportunities for CalPERS to take a leadership role in shaping market reform to protect investors in the future. Staff will keep the Committee apprised of its efforts going forward.

### AGENDA ITEM 10 – SUPPLEMENTAL INCOME PLANS (SIP)

There were no items to report.

### AGENDA ITEM 11 – CHIEF INVESTMENT OFFICER'S / CHIEF OPERATING INVESTMENT OFFICER'S REPORT

### a. Consolidated Investment Activity Report

Anne Stausboll, Interim Chief Investment Officer, presented the item and highlighted AIM and RMARS items completed under delegated authority.

The Committee accepted the Consolidated Investment Activity Report. The total market value of the fund as of August 31, 2008, was approximately \$233.4 billion and the total book value was approximately \$207.3 billion.

#### b. Chief Operating Investment Officer's Status Report

The Committee accepted the Chief Operating Investment Officer's Status Report.

#### c. 2008 Annual Agenda Item Calendar

The Committee accepted the 2008 Annual Agenda Item Calendar as presented.

### AGENDA ITEM 12 – DRAFT NOVEMBER 2008 AGENDA

The Committee accepted the proposed November 17, 2008 agenda with possible consideration of ING Investment Management as a High Yield Fixed Income Manager and the RMARS panel.

### **AGENDA ITEM 13 – PUBLIC COMMENT**

There were no comments from the public.

The meeting was adjourned at 12:30 p.m.

The next Investment Committee meeting is scheduled for November 17, 2008 in Sacramento, California.

Kenneth W. Marzion
Interim Chief Executive Officer